The Clear Skies Act of 2003

Minnesota and Clear Skies

Highlights of Clear Skies in Minnesota

- Minnesota sources would reduce emissions of SO_2 by 8%, NO_x by 76%, and mercury by 15% by 2020 due to Clear Skies.

- The health benefits in Minnesota would total $1.2 billion annually ($240 million under an alternate estimate) and include 200 fewer premature deaths (100 fewer under an alternate estimate) and 500 fewer hospitalizations/emergency room visits each year.

- In addition, Minnesota would receive significant environmental benefits, including reductions in nitrogen deposition that would benefit lakes and waterways.

- Clear Skies does not significantly impact electricity prices. With or without Clear Skies, electricity prices in the electricity supply region that includes Minnesota are expected to remain below 2000 prices.

Clear Skies: An Innovative Approach to Improving Human Health and the Environment

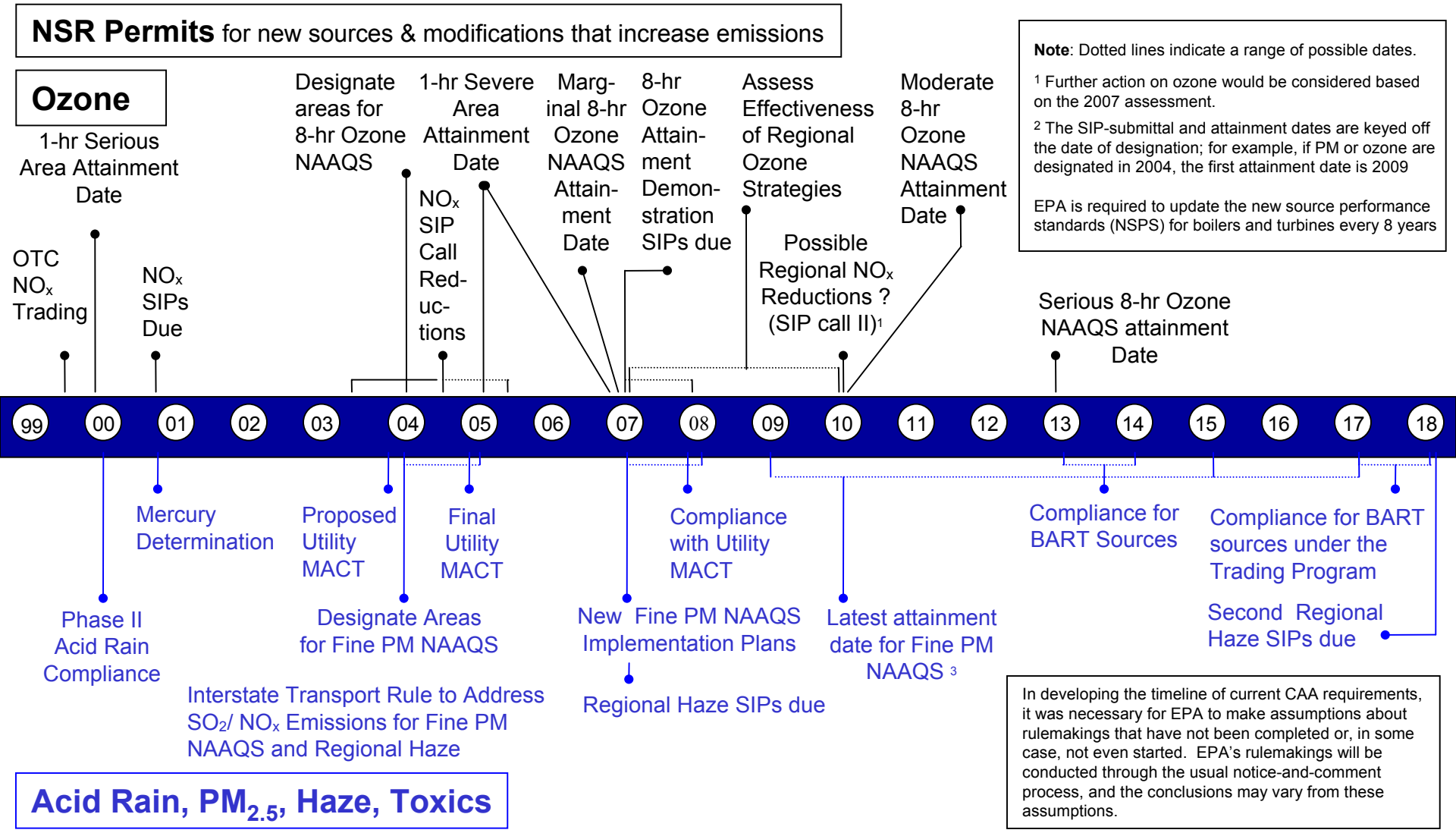
Why Clear Skies?

- **Air quality has improved, but serious concerns persist**
  - Minnesota's citizens suffer ill effects from air pollution, including asthma attacks and premature death
- **Electricity generation sector remains a major emissions source**
  - Very cost-effective to control the power sector, relative to other sources
  - Sources are concerned about upcoming complex and burdensome regulations

Advantages of the Clear Skies Approach

- **Guarantees significant emissions reductions – beginning years before full implementation**
  - Minnesota sources would significantly reduce emissions of NO_x
  - Progress towards achievement of critical health and environmental goals
- **Uses proven, market-based flexible approach with incentives for innovation**
  - Recognizes environmental needs as well as industry constraints, allowing industry to better manage its operations and finances while lowering risks to the public
  - Sources are projected to install pollution controls to enable continued reliance on coal
- **Increases certainty across the board for industry, regulators, and consumers**

Under Current Clean Air Act Power Plants Would Face a Complex Set of Requirements



Note: Dotted lines indicate a range of possible dates.

[1] Further action on ozone would be considered based on the 2007 assessment.

[2] The SIP-submittal and attainment dates are keyed off the date of designation; for example, if PM or ozone are designated in 2004, the first attainment date is 2009

EPA is required to update the new source performance standards (NSPS) for boilers and turbines every 8 years

In developing the timeline of current CAA requirements, it was necessary for EPA to make assumptions about rulemakings that have not been completed or, in some case, not even started. EPA's rulemakings will be conducted through the usual notice-and-comment process, and the conclusions may vary from these assumptions.

Clear Skies Sets a Firm Timeline for Emission Reductions

The existing Title IV SO_2 cap-and-trade program provides an incentive and a mechanism to begin reductions upon enactment of Clear Skies years before regulatory action under the current Act.

2004: The NOx SIP call (summertime NOx cap in 19 Eastern States + D.C.) → **2004**

2008: Clear Skies NOx Phase I (2.1 million ton annual cap assigned to two Zones with trading programs) → **2008**

2010: Clear Skies Hg Phase I (26 ton annual cap with a national trading program)

2010

2010: SO_2 Phase I (4.5 million ton annual cap with a national trading program)

2018: Clear Skies NOx Phase II (1.7 million ton annual cap assigned to two Zones with trading programs) → **2018**

2018: Clear Skies Hg Phase II (15 ton annual cap with a national trading program)

2018: Clear Skies SO_2 Phase II (3.0 million ton annual cap with a national trading program)

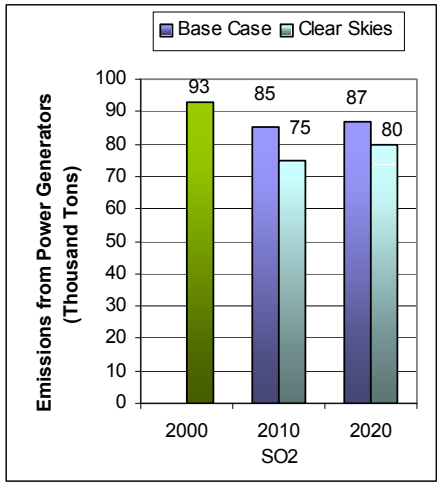
Emissions in Minnesota under Clear Skies

Emissions in Minnesota (2020) would be significantly reduced from 2000 levels:

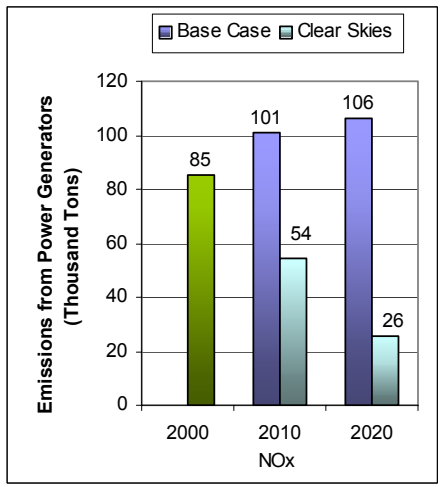
- 14% reduction in SO_2 emissions
- 70% reduction in NO_x emissions
- 4% reduction in mercury emissions

Emissions: Current (2000) and Existing Clean Air Act Regulations (base case*) vs. Clear Skies in Minnesota in 2010 and 2020

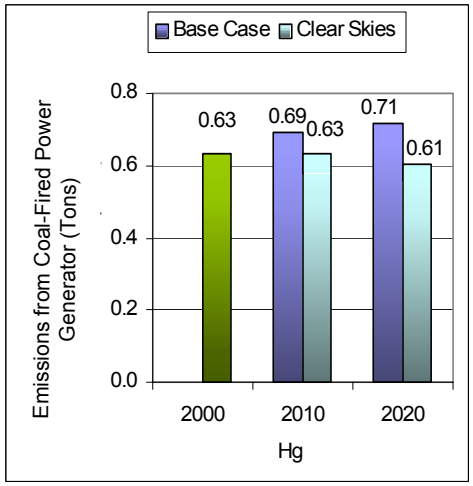
Sulfur dioxide



Nitrogen oxides



Mercury



Note: The base case using IPM includes Title IV, the NO_x SIP Call, NSR settlements, and state-specific caps in CT, MA, MO, NC, NH, TX, and WI. It does not include mercury MACT in 2007 or any other potential future regulations to implement the current ambient air quality standards or other parts of the Clean Air Act. Base case emissions in 2020 will likely be lower due to state and federal regulatory actions that have not yet been promulgated.

Clear Skies Health and Air Quality Benefits in Minnesota

Improve Public Health

- **Reduced ozone and fine particle exposure** by 2020 would result in public health benefits of:
  - approximately 200 fewer premature deaths each year[1]
  - approximately 100 fewer cases of chronic bronchitis each year
  - approximately 300 fewer non-fatal heart attacks each year
  - approximately 500 fewer hospital and emergency room visits each year
  - approximately 21,000 fewer days workers are out sick due to respiratory symptoms each year
  - approximately 6,500 fewer school absences each year
- **Reduced mercury emissions** would reduce exposure to mercury through consumption of contaminated fish, resulting in additional, unquantified benefits to those who eat fish from Minnesota's lakes.

By 2020, Minnesota would receive approximately $1.2 billion in annual health benefits from reductions in fine particle and ozone concentrations due to Clear Skies.[1]

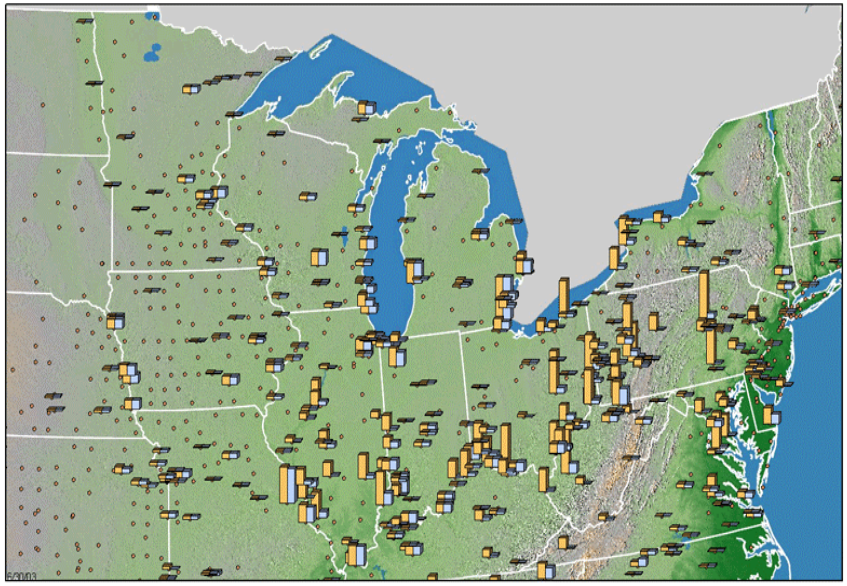
Help Maintain Health-Based Air Quality Standards[2]

- Currently, all counties in Minnesota meet the 8-hour ozone and fine particle standards.
- Clear Skies would further reduce concentrations of ozone and fine particles throughout Minnesota.

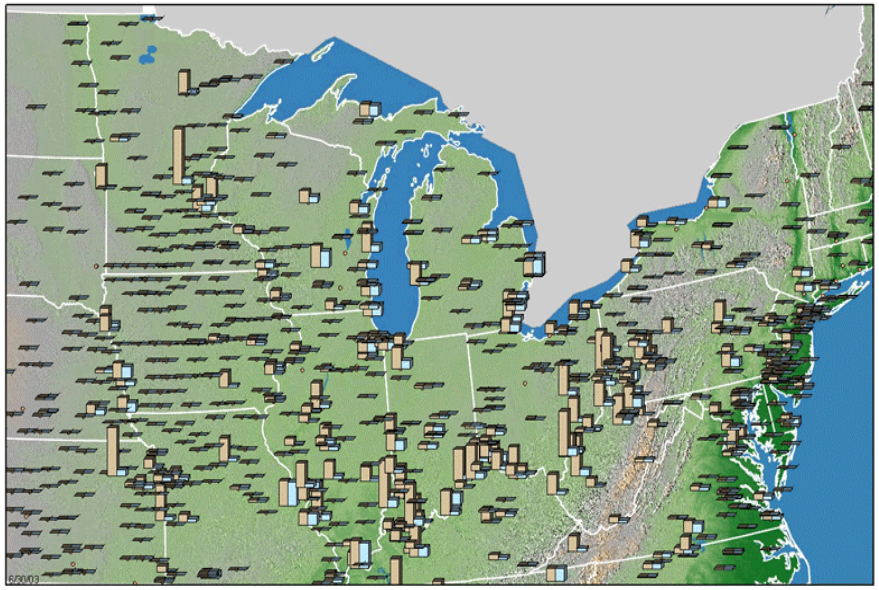
1. An alternative methodology for calculating health-related benefits projects approximately 100 premature deaths prevented and $240 million in health benefits each year in Minnesota by 2020.
2. Based on 1999-2001 data for counties with monitors that have three years of complete data.

SO_2 and NO_x Emissions Reductions under Clear Skies

Emissions in Minnesota and surrounding states would decrease considerably. These emission reductions would make it much easier for Minnesota to comply with the national air quality standards.



Projected SO_2 Emissions from Power Plants with the Base Case and Clear Skies (2020)
Midwest

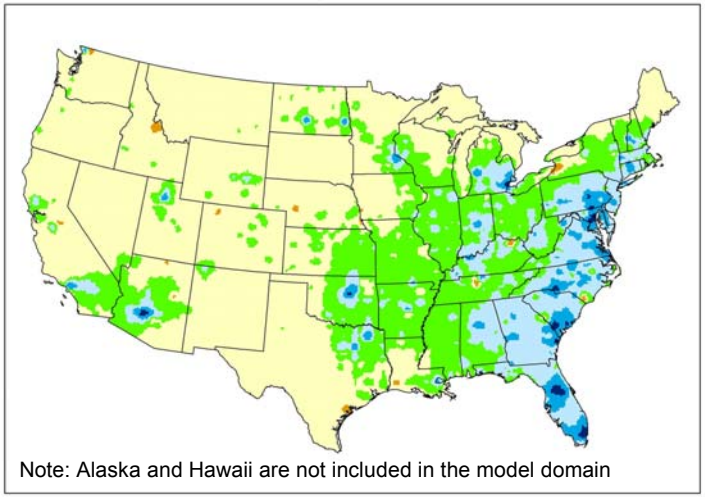


Projected NO_x Emissions from Power Plants with the Base Case and Clear Skies (2020)
Midwest

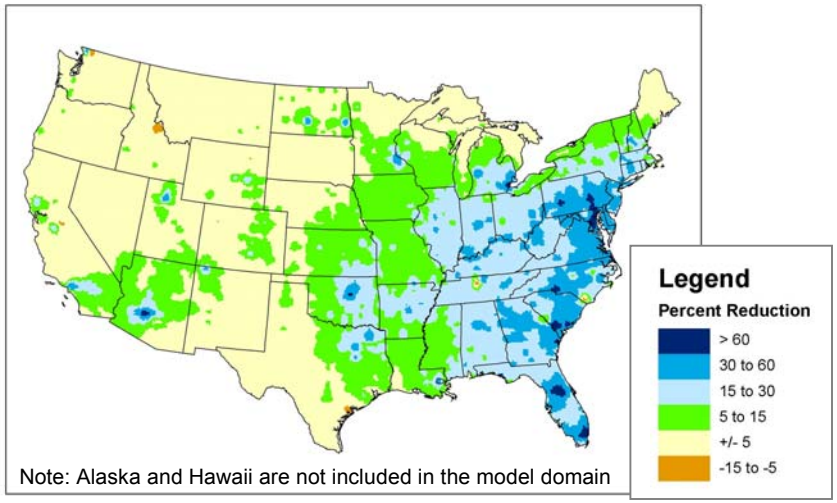
Note: The base case in IPM includes Title IV, the NOx SIP Call, NSR settlements, and state-specific caps in CT, MA, MO, NC, NH, TX, and WI. It does not include mercury MACT in 2007 or any other potential future regulations to implement the current ambient air quality standards or other parts of the Clean Air Act. Base case emissions in 2020 will likely be lower due to state and federal regulatory actions that have not yet been promulgated. Emissions projected for new units in 2020 are not reflected.

Clear Skies Environmental Benefits in Minnesota

Projected Changes in Mercury Deposition with the Base Case in 2020 Compared to 2001



Projected Changes in Mercury Deposition with Clear Skies and the Base Case in 2020 Compared to 2001



Clear Skies Would Provide Substantial Environmental Benefits in Minnesota

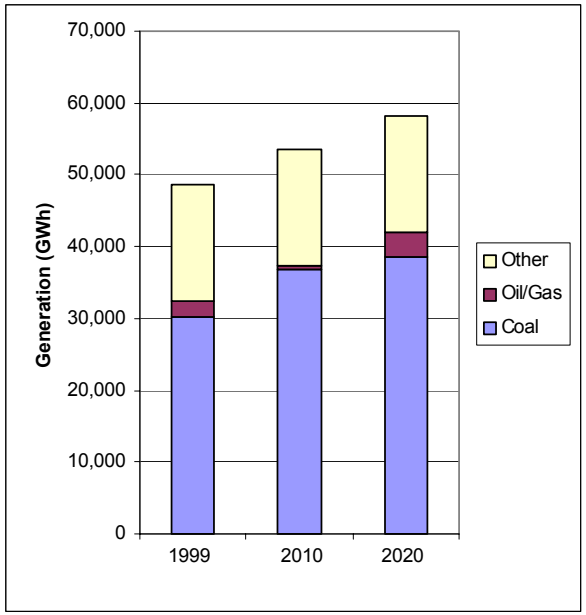
In comparison to existing programs,

- **Visibility would improve** perceptibly.
  - The value of this benefit for Minnesota is $43 million.
- **Sulfur deposition, a primary cause of acid rain, would decrease** up to 15% across the state and up to 30% in some areas.
- **Nitrogen deposition, another significant contributor to acid rain as well as a cause of damage in nitrogen-sensitive forests and coastal waters, would decrease** 5-20% across the state.
- **Mercury deposition would decrease** up to 5% across the state.*

* These results are based on modeling the Clear Skies mercury cap without triggering the safety valve.

Electricity Generation in Minnesota under Clear Skies

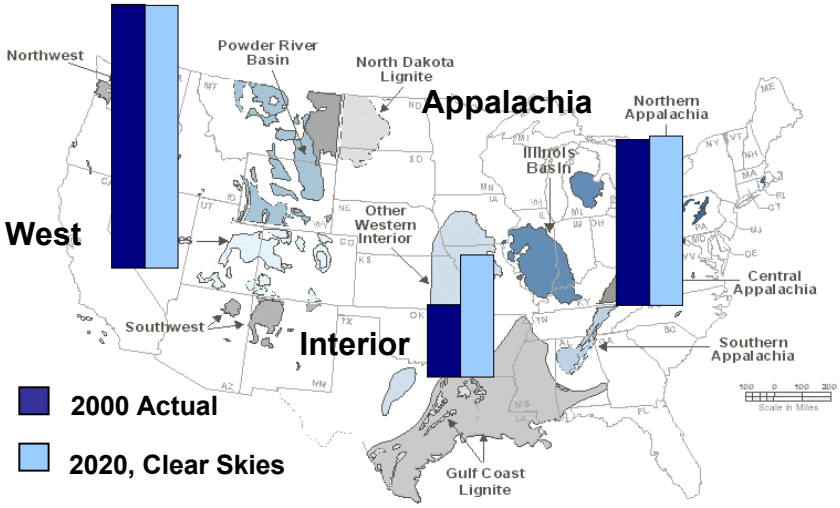
Current and Projected Generation by Fuel Type in Minnesota under Clear Skies (GWh)



- **Minnesota's electricity growth is projected to be met by increases in gas-fired and coal-fired generation. Clear Skies does not significantly alter this projection.**
  - Electricity from coal-fired generation will increase by 28% from 1999 to 2020.

- **Minnesota's sources are projected to reduce their emissions through the installation of emission controls, rather than through a switch from coal to natural gas.**
  - In 2010, 74% of Minnesota's coal-fired generation is projected to come from units with advanced SO_2 and/or NOx control equipment that also substantially reduce mercury emissions; in 2020, the percentage is projected to increase to 76%.

Current and Projected Coal Production for Electricity Generation



Scale: Appalachia 2000 = 299 million tons

Emission Controls in Minnesota under Clear Skies

- **Under Clear Skies by 2020...**
  - 74% of coal-fired capacity would install SCR or SNCR
  - No scrubbers would be installed

- **The major generation companies in Minnesota include:**
  - Xcel Energy
  - Minnesota Power and Light Company
  - Great River Energy
- **Total coal-fired capacity in Minnesota is projected to be 5,126 MW in 2010.**

Units in Minnesota Projected to Be Retrofitted Due to Clear Skies by 2020

Plant Name	Unit ID	Technology
ALLEN S KING	1	SCR*
CLAY BOSWELL	3	SCR
CLAY BOSWELL	4	SCR
RIVERSIDE	8	SCR
SHERBURNE COUNTY	1	SCR
SHERBURNE COUNTY	2	SCR
SHERBURNE COUNTY	3	SCR

* Retrofit was installed under Clear Skies by 2010

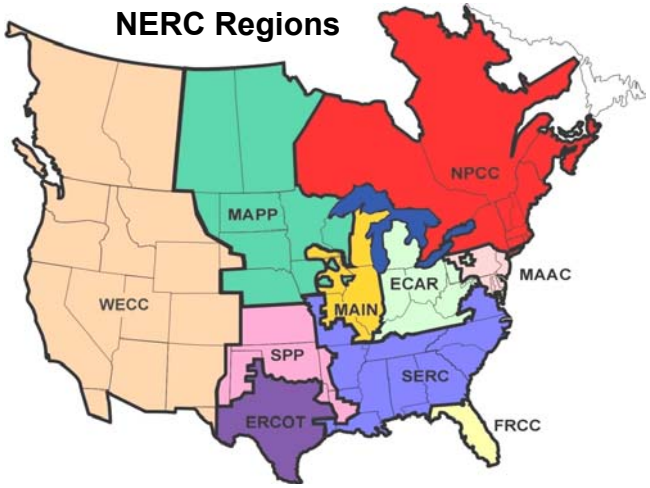
Notes:

[1] Retrofits and total coal-fired capacity apply to coal units greater than 25 MW.

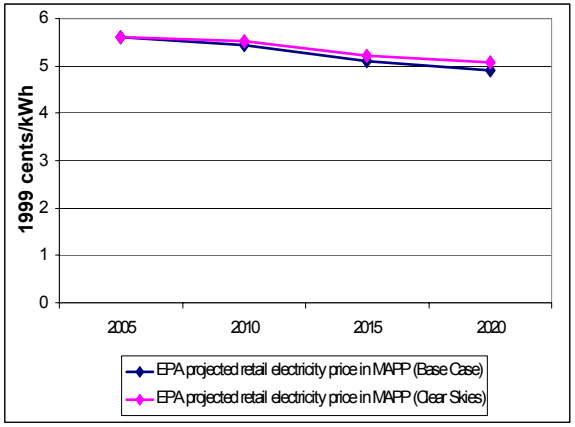
[2] Syl Laskin units 1 and 2 and Black Dog unit 2 are projected to be removed from operation by 2005 with Clear Skies due to excess gas-fired capacity in the marketplace, unless otherwise needed for voltage purposes. The recent overbuild of gas-fired generation reduces the need for less efficient units operating at lower capacity factors. These units are inefficient compared to other coal-fired plants and newer gas-fired generation. Less conservative assumptions regarding natural gas prices or electricity demand would create a greater incentive to keep these units operational.

Electricity Prices in Minnesota under Clear Skies

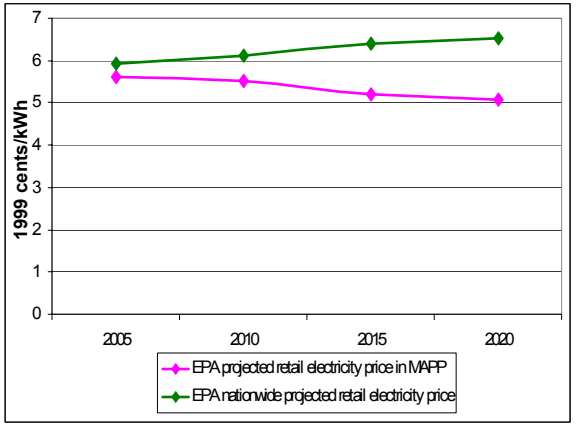
- **With or without Clear Skies, retail prices in the North American Electric Reliability Council (NERC) MAPP region (the electricity supply region that contains Minnesota) are projected to decrease between 2005 and 2020.**
- **With Clear Skies, retail prices are projected to be approximately 0.2 – 3.5% higher between 2005 and 2020 than in the absence of the legislation.**



Projected Retail Electricity Prices in Minnesota under the Base Case and Clear Skies (2005-2020)



Projected National Retail Electricity Prices and Prices in Minnesota under Clear Skies (2005-2020)



In 2000, the average retail electricity price in Minnesota was approximately 5.8 cents/kWh, which was below the average *national* retail price of approximately 6.7 cents/kWh.

Note: The base case using IPM includes Title IV, the NO_x SIP Call, NSR settlements, and state-specific caps in CT, MA, MO, NC, NH, TX, and WI. It does not include mercury MACT in 2007 or any other potential future regulations to implement the current ambient air quality standards or other parts of the Clean Air Act. Base case emissions in 2020 will likely be lower due to state and federal regulatory actions that have not yet been promulgated.

Costs and Benefits in Minnesota under Clear Skies

Benefits Outweigh the Costs

- **In Minnesota, Clear Skies is projected to cost approximately $35 million annually by 2020 while providing health benefits totaling approximately $1.2 billion annually**.
- **The increases in production costs under Clear Skies represent only a small percentage of total retail electricity sales revenue in Minnesota.**
  - Retail electricity sales revenue in Minnesota was over $3.5 billion in 2000.
  - Adjusting these sales revenues by the same growth rate used for the modeling of costs would result in revenues of almost $5.4 billion annually in 2020.
- **Nationwide, the projected annual costs of Clear Skies (in $1999) are $4.3 billion in 2010 and $6.3 billion in 2020; the nationwide benefits of Clear Skies are expected to be over $113 billion annually by 2020.**
  - An alternate estimate projects annual health benefits totaling $23 billion.

Clear Skies….

- **Guarantees significant emissions reductions – beginning years before full implementation**
- **Uses a proven, market-based flexible approach with incentives for innovation**
- **Increases certainty across the board for industry, regulators, and consumers**

Note: Costs include capital costs, fuel, and other operation and maintenance costs (both fixed and variable) associated with the achievement of the emissions caps in the legislation (for example, the installation and operation of pollution controls). These state-level production costs are estimates; they do not account for the costs associated with the transfer of electricity across regions, nor the costs or savings that could be associated with allowance movement between sources.

Notes on EPA's Analysis

- The information presented in this analysis reflects EPA's modeling of the Clear Skies Act of 2003.
  - EPA has updated this information to reflect modifications:
    - Changes included in the Clear Skies Act of 2003.
    - Revisions to the Base Case to reflect newly promulgated rules at the state and federal level since the initial analysis was undertaken.
  - The Clear Skies modeling results presented include the safety valve feature
- This analysis compares new programs to a Base Case (Existing Control Programs), which is typical when calculating costs and benefits of Agency rulemakings.
  - The Base Case reflects implementation of current control programs only:
    - Does not include yet-to-be developed regulations such as those to implement the National Ambient Air Quality Standards.
  - The EPA Base Case for power sector modeling includes:
    - Title IV, the NO_x SIP Call, NSR settlements, and state-specific caps in Connecticut, Massachusetts, Missouri, New Hampshire, North Carolina, Texas, and Wisconsin finalized before March 2003.
  - For air quality modeling, the Base Case also includes federal and state control programs, as well as the Tier II, Heavy Duty Diesel, and Non-Road Diesel rules.

- **For more information regarding the Clear Skies Act, please visit the EPA website:**

(http://www.epa.gov/clearskies)

CLEAR SKIES
Better Health, Brighter Future